

**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554**

In the Matter of)	
)	
Palau National Communications Corporation)	
)	
Petition for Declaratory Ruling that)	
Palau National Communications Corporation)	
Is Subject to FCC Jurisdiction and Eligible to)	
Participate in Universal Service Programs and)	
The National Exchange Carrier Association)	
)	
Petition for Related Waivers and Application for)	
International Section 214 Authority)	
)	
Federal-State Joint Board on Universal Service)	CC Docket No. 96-45
)	

COMMENTS OF GVNW CONSULTING, INC.

In response to the Commission's December 6, 2001 Public Notice seeking comments on the Petition of the Palau National Communications Corporation (PNCC), GVNW Consulting, Inc. respectfully submits its comments. GVNW Consulting, Inc. is a management-consulting firm that provides consulting services to independent telephone companies.

A. High Cost Nature of Palau Telecommunications.

In order to provide affordable local telephone service and access to long distance services, PNCC's long distance charges have subsidized its local service charges. In other words, PNCC's toll charges and charges to international carriers have historically been high to keep local rates affordable and help stimulate

development of telephone service in general. This is the same technique that was used across the United States to foster telephone service development until implementation of the Federal Universal Service Fund (USF). The USF shifted (in part) the burden of local subsidies from per minute charges on interstate toll users and carriers to flat rate charges.

B. PNCC is Already Effectively Regulated by the FCC.

In 1997 the FCC adopted the International Settlement Rate Benchmarks Order (IB Docket No. 96-261)¹ that is designed to reduce the cost of international long distance telephone service by setting new, lower benchmarks on international settlement rates. As stated in PNCC's petition,² under the terms of the Compact of Free Association, "Palau will be included in the United States telecommunications system for rate making and other operational aspects relating to United States common carriers." As a result, it is highly likely PNCC will have to reduce its rates to terminate international calls to \$.19 per minute (note that PNCC's current rate is \$.50, down from \$1.00 in 1990). The resulting reductions in revenue continue to have a drastic effect on the company which will impact the residents of Palau. PNCC will have to substantially increase local rates leading to service disconnection (due to the low per capita income of Palau) that could place the company's financial health and survivability at risk. GVNW estimates that PNCC would have to increase local rates by an average of \$34 per local access

¹ *International Settlement Rates*, 12 FCC Rcd 19806 (1997) ("Benchmarks Order"), aff'd sub nom. *Cable & Wireless PLC v. FCC*, 166 F.3d 1224 (D.C. Cir. 1999).

² *Petition of the Palau National Communications Corporation*, November 16, 2001, CC Docket No. 96-45, p. 6.

line, over a 150% increase, to simply replace revenues lost as a result of actual and proposed reductions in international rates.³

C. FCC Insular Status of the Republic of Palau

The Telecommunications Act of 1996 mandates that “consumers in all regions of the Nation, including low-income consumers and those in rural, insular and high cost areas, should have access to telecommunications and information services....”⁴ The FCC in CC Docket No. 96-45 (Further Notice of Proposed Rule Making), sought comment on whether the Freely Associates States (FAS) of the Republic of the Marshall Islands, the Federated States of Micronesia, and the Republic of Palau should be included in the definition of insular areas. As the FCC notes in its request for comment, “these islands are associated with the United States through the terms of a Compact of Free Association, which gives the Commission authority and jurisdiction over various telecommunications services in the FAS.....”⁵ Comments were submitted by GVNW⁶ on January 14, 2000 in support of Palau being included in the FCC’s definition of insular areas and participation in High Cost Fund distributions.

D. Conclusion

GVNW Consulting, Inc. fully supports PNCC’s petition for declaratory rulings and waivers necessary to include PNCC in the universal service program and to allow it to participate in the National Exchange Carrier Association.

³ Estimate is based on reducing international rates to \$.19 from \$1.00 (1990) using recent toll traffic volumes and local access lines.

⁴ 47 U.S.C. § 254 (b)(3)

⁵ CC Docket No. 96-45 at ¶139

⁶ *Reply Comments of GVNW Consulting, Inc. on Behalf of Palau National Communications Corporation*, CC Docket 96-45, January 14, 2000.

PNCC has been placed in an untenable situation of being caught between diminishing implicit subsidies and the lack of financial capability of its residents to support increases in local rates. PNCC's petition states that Palau's per capita gross domestic product is \$6,272, hardly enough to absorb a 150% rate increases.⁷

Continuing the current one-way regulation by the FCC will only result in undoing the modernization efforts fostered by the \$39.1 million long-term loan from RUS⁸ and hamper the economic growth generally associated with state-of-the-art communications systems.

Respectfully submitted,

Electronically filed – paper copies bear signature

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⁷ *Petition of the Palau National Communications Corporation*, November 16, 2001, CC Docket No. 96-45, at Page 10.

⁸ *Ibid.*, p. 7.